audit
report

OFFICE OF INSPECTOR GENERAL

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June 18, 1996
Audit Case Number
96-AO-203-1002

TO: Lee A. Palman, Director, Office of Public Housing,
District of Columbia Office, 3GPH

FROM: Janice LeRoy, District Inspector General, Capital District, 3GGA

SUBJECT: Audit Report on the District of Columbia Housing Authority
Section 8 Certificate and Voucher Payments System
Report No. 96-AO-203-1002

This is our final report on the subject audit performed to assess the adequacy of the District of Columbia Housing Authority controls over the Section 8 certificate and voucher payment system. We found the Housing Authority had taken many positive steps to strengthen its control over the system, especially since May 1995 when the Housing Authority was placed under a court-appointed receiver, empowered to reorganize and restructure the authority and control personnel matters, union negotiations and the obligation and expenditure of funds. Since that time, the Housing Authority has separated from the District and begun to issue its own checks. It has also purchased a computer system to ultimately service both the Section 8 program and the Housing Authority's other business lines and hired new Section 8 staff.

Now that this foundation for effective management has been laid, the overall integrity of the Section 8 program needs to be restored. Controls need to be strengthened to protect against fraud, waste and abuse; the reliability of Section 8 database needs to be upgraded; and overpayments to landlords need to be identified and recovered.

The draft report was provided for comment to the Housing Authority and the District of Columbia Office. The Housing Authority response expressed overall agreement with the report and the recommendations. The District of Columbia Office did not express agreement or disagreement with the findings, except to concur with the statement that positive steps had been taken to strengthen operations and to note that the report contained no surprises.

We commend the open communication between the parties to this effort that assured there were no surprises. We also commend the efforts of both the District of Columbia Office and the

Housing Authority — much of which occurred during the course of the audit — to correct the problems described in this report. However, the long-standing and pervasive problems experienced by the Housing Authority allowed significant instances of program fraud to go undetected for extended periods of time. Therefore, continued vigilance is essential to assure planned improvements come to fruition and the reoccurrence of past problems is deterred.

INTRODUCTION

Section 8 is a rental assistance program designed to help low income families obtain decent, safe and sanitary housing. The program, administered by authorized public housing authorities, provides eligible families rental vouchers or certificates to use in securing rental units that meet their needs. Housing authorities pay property owners that accept the vouchers and certificates a portion of the rent, known as a HAP or housing assistance payment, on behalf of the low income family.

Participating housing authorities enter into a Section 8 Certificate and Voucher Program Annual Contribution Contract with HUD that requires the authority to comply with the requirements of the U.S. Housing Act of 1937, 24 CFR Parts 812, 813, 882, 982, 983 and HUD Section 8 Handbooks. Specific to this audit is the requirement that the authority maintain complete and accurate books of accounts and records for the program.

The District of Columbia Housing Authority disburses about $30 million annually to private property owners under the Section 8 program. Those disbursements are associated with approximately 3,000 monthly Section 8 certificates and vouchers.

The Housing Authority has been on the list of troubled housing authorities consistently since 1979. This history of chronic poor performance culminated in July 1995 when the housing authority was removed from the District's control and placed under a court-appointed receiver. The receiver was empowered to reorganize and restructure the authority and was given control over personnel matters, union negotiations and the obligation and expenditure of funds. Since then many management and staff changes have been made, several of which impacted the administration of the Section 8 program.

The Section 8 changes were stimulated not only by the Housing Authority's performance problems but also by program fraud. During the period 1990 to 1993, housing authority employees were engaged in fraudulently selling tenant eligibility to friends and relatives. In January 1993, those employees under investigation, including the Section 8 chief, were removed from their positions and the program operated under an acting chief until sentences were handed down in January 1995. To assist in restoring the integrity of the Section 8 program, a HUD team was assigned to the Housing Authority in June 1994. The team remained until a qualified Section 8 Director was hired.

SCOPE OF AUDIT

The objective of our audit was to determine the adequacy of the District of Columbia Housing Authority controls over the Section 8 certificate and voucher payment system. To accomplish our objectives we:

- analyzed and reconciled landlord payment information in the check register, payment register and rent rolls;

- performed trend analysis on automated payment data;

- analyzed a sample of tenant files to verify the accuracy of housing assistance payments and completeness of the files and to determine whether the unit had been properly inspected; and

- interviewed District of Columbia Housing Authority and District of Columbia Office staff.

The audit period was primarily October 1993 through June 1995 with the analysis of Section 8 landlord payments expanded to include fiscal year 1993. The audit was conducted in accordance with government auditing standards appropriate to our scope of audit. Field work was performed at the District of Columbia Housing Authority during the months of June through October 1995.

**CONTROLS OVER THE SECTION 8 PAYMENT SYSTEM
  MUST BE STRENGTHENED**

While recent efforts to strengthen the District of Columbia Housing Authority Section 8 program have resulted in significant progress toward restoring program integrity, more needs to be done to assure that housing assistance payments are protected from fraud and that accurate accounts and records are maintained for the Section 8 program. A chronic lack of management attention allowed fraud to occur and go undetected for years; systems to become outdated, ineffective and inaccurate; and overpayments to go uncollected. We recommend your office assure the Housing Authority fully implements procedures to provide adequate separation of the payment generation and collection functions; identify landlords by tax identification or social security number and correctly enter the information into the payment system; assure payment calculations are accurate; and identify and collect landlord overpayments.

Controls Are Needed to Detect and Prevent Fraud

Section 8 program fraud, committed by Housing Authority employees, went undetected for extended periods because the payment system was virtually devoid of controls. During the period October 1993 to June 1994, at least $30,000 in payments to bogus landlords were generated and ultimately retained by a Section 8 payment specialist. The fraud went undetected for nearly two years because the specialist both created the Section 8 landlord payments registers and received returned checks. Although the registers were sent to the comptroller's office for review and approval before payment, the review was cursory at best. The fraud was finally detected when one

of the fraudulent payments was returned while the payment specialist who committed the fraud was absent.

Not only were the controls inadequate to prevent fraud, the likelihood of detection was diminished by the presence of incompatible processing systems. During the period when the fraud occurred, Section 8 payments were processed through three separate computer systems — two residing with the Housing Authority and the third with the DC Treasury. Section 8 payments registers were generated by an outdated system containing tenant files and payments histories. Those registers were sent monthly to the Office of the Comptroller which operated a system that communicated with the DC Treasury system, but not the Section 8 system. The payment registers then went to the DC Treasury, where payment data was manually input into the District's system and checks cut and issued. Checks could also be generated by simply calling the DC Treasury.

The situation had improved somewhat by the time of the audit. A new computer system had been purchased to ultimately service both the Section 8 program and the Housing Authority's other business lines. In addition, ties to the DC Treasury had been severed, checks were being issued by the Comptroller's Office, landlord files were being updated and the payment registers were being reconciled to the rent rolls.

Despite these improvements, the controls in place at the time of the audit were still not adequate to prevent or detect fraud. Returned checks were still not recorded or restrictively stamped when received in the mail room and those checks were still returned to the payment specialist who initiated the payment for final disposition. Finally, the same specialist who initiated the overpayment collection letters received the overpayment refund check. These are the same or similar control gaps that allowed the prior fraud to occur and remain undetected.

Database Needs to Be More Reliable

Information in the automated Section 8 payment database was neither accurate nor reliable. The database contained incorrect rent amounts, tax identification numbers, names, addresses and phone numbers. In addition, the input for calculating the voucher tenant rent was incorrect, resulting in incorrect calculations of rent and utility payments for about 40 percent of the payments.

This was not a new problem for the Authority. In September 1992, the OIG issued a report (Report 92-PH-201-1015) that recommended the Authority identify Section 8 properties owners by social security number or taxpayer identification number on each HAP contract. Based on information received from the DC Area Office and the Housing Authority, the recommendation was considered resolved in February 1994. However, at the time of our audit, properties owners were not always properly identified on the HAP contract and the identification system that had been established had not been maintained. Once again property owners could be entered into the payment system by name only.

On August 15, 1995, we issued a memorandum to PIH and the District of Columbia Office, with a copy to the Housing Authority, alerting them to the significance of the problems. The Housing

Authority quickly responded to increase its control over payments by accelerating implementation of the new Section 8 computer program, especially the payments portion, and correcting tax identification or social security numbers for landlords currently receiving Section 8 payments. That response was commendable. However, the overall integrity of the Section 8 program will remain questionable until the new computer program is completely on line and the controls can be verified.

Landlord Overpayments Need to Be Collected

The Housing Authority was not diligent in identifying and collecting excess Section 8 housing assistance payments to landlords. For the three fiscal years ending in 1995, the overpayments totalled about $440,000.

Prior to October 1994, when HUD directed the Housing Authority to establish procedures, the Authority was neither identifying nor collecting overpayments. Subsequently, the Authority identified and recorded about $140,000 in overpayments made during fiscal year 1995. However, the only actual collection efforts were in the form of offsets against future payments. In other words, overpayments would only be recovered if a landlord was still receiving housing assistance payments or reentered the system.

We also found that staff follow-up was sporadic, collection records were limited, repayment verification was difficult and attempts had not been made to reconstruct overpayments during periods prior to fiscal year 1995. Our analysis of the payment information for the fiscal years 1993, 1994 and 1995 disclosed another $300,000 in overpayments.

Recommendations

We recommend the District of Columbia Office assures the District of Columbia Housing Authority:

1. Adequately separates the functions of payment generation and collection. This separation of duties is essential to guard against program fraud and to quickly detect fraud if it occurs.

2. Assures the new Section 8 system uses a standard identification system such as tax identification or social security numbers.

3. Verifies that the information used to develop the new Section 8 computer system payment files is correct.

4. Verifies voucher payments calculations at the time of recertification until the Housing Authority modifies or replaces the current Section 8 computer system.

5. Determines the status of each landlord overpayment and recover all appropriate portions of the $440,000 in overpayments.

6. Establish procedures to pursue and document collection activities.

REPORT COMMENTS

The Housing Authority and the District of Columbia Office were provided an opportunity to respond to the draft report. Those responses were considered in preparing the final report, and, to the extent not incorporated, paraphrased below. The full text of those comments are provided as Attachments A and B to this report.

Housing Authority Comments

The Housing Authority expressed overall agreement with the report and the recommendations while providing additional clarification for some areas.

In regards to the need for controls to detect and prevent fraud, the Housing Authority agreed the functions of payment generation and collection should be separated and stated there is currently separation in the payment and collection functions in that actual disbursement are managed through the Finance/Accounting Department and collection efforts are initiated by the Section 8 Department.

The Authority commented that the Memory Lane Systems software will solve many of its problems and described actions that have recently been taken to facilitate its effective implementation.

While the Authority agreed that the status of $440,000 receivable balance should be determined, it stated that the $300,000 we identified is an aged receivable, based on information not currently in its financial systems. The Authority also stated HUD had already identified the balance and decided against rolling it into the computer due to aging and inability to collect. The Authority recommended the amount be forgiven.

Additional OIG Comments

The corrective actions we noted, and the additional actions reported to have occurred since the end of our field work, should, when fully implemented, alleviate many of the noted problems. Primary among those actions is the management attention now focused on the process and procurement of the new computer software and the controls it incorporates.

However, we do not agree that the gaps in the system of controls have been fully closed. Fraud occurred and went undetected because one person within the Section 8 department could both create landlords to initiate payments and collect returned checks. While improving disbursement controls in the accounting department and strengthening supervisory oversight are desirable controls, as long as negotiable checks are returned to the same people who have the ability to initiate payment, the same fraud as previously occurred can reoccur.

We also cannot agree with all the comments provided regarding overpayments to landlords. As the response from the Housing Authority did not provide documentation of the reported HUD decision regarding the $300,000 in landlord overpayments, we followed up with the District of Columbia Office to verify that such a decision had been made. The Office reported it was aware uncollected overpayments existed for periods prior to fiscal year 1995, but considered identification of the amounts secondary to the Housing Authority's more immediate problems. The Office did not, however, believe that a decision had been made not to roll the amount into the accounting system. In fact, we identified the $300,000 from information currently in the system payment history.

District of Columbia Office Comments

The District of Columbia Office stated that the report contained no surprises and they concurred with our statement that positive steps had been taken to strengthen operations. They also reported they had . . . *worked closely with the housing authority in developing tasks that will complement and enhance performance in the Section 8 program. One of the tasks is a complete review and testing of the new internal controls, procedures and separation of duties as a result of the new data base system. We are confident that any deficiencies found at that time will be addressed appropriately.*

Additional OIG Comments

We commend the Office for its active involvement with the Housing Authority and are reassured to hear of the controls that will be incorporated in the new data base to complement and enhance performance in the Section 8 program. The complete review and testing of the new internal controls, procedures and separation of duties, to be carried out by a firm expert in this area is also reassuring. A report of the review and testing, when received by our office, should document much of the corrective action needed to ultimately close our finding. However, as stated previously, the long-standing and pervasive problems experienced by the Housing Authority require continued vigilance to assure planned improvements come to fruition and the reoccurrence of past problems is deterred.

INTERNAL CONTROLS

In planning and performing our audit, we studied accounting and administrative controls related to the audit objectives. Internal controls consist of organizational methods and procedures used to ensure that resources are used consistently with laws, regulations and policies that safeguard against waste, loss and misuse. We determined that accounting system controls and management policies and procedures were relevant to our audit objectives.

Significant control weaknesses exist if the controls do not give reasonable assurance that resources are:

- used consistently with laws, regulations and policies;

- safeguarded against waste loss and misuse; and

- maintained accurately and are fairly disclosed in reports.

As discussed in the report, we believe that the lack of controls over the housing assistance payments represent a significant program weakness.

Plan of Corrective Action

Within 60 days please provide us, for each recommendation in this report, a status report on the corrective action taken; the proposed corrective action and the date to be completed; or why action is considered unnecessary. Also please furnish us copies of any correspondence or directives issued because of the audit. Should you have any questions, please call me or Mark Chandler, auditor-in-charge, at 202-708-0351.

CC:
3GGA LeRoy   3154
3GGA Chandler   3154
3GGA Workpapers   3154
3GGA Files   8266 (2010.5)
3GGA:LeRoy 4-23-96 708-0351 R:\CAPGROUP\report\rpt.96_____.JL

Concurrences and Dates: Chandler _____

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OFFICE OF INSPECTOR GENERAL

June 18, 1996

David Gilmore, Receiver
District of Columbia Housing Authority
1133 North Capital Street N.E.
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Dear Mr. Gilmore:

Enclosed is our final audit report based on our review of the District of Columbia Housing Authority Section 8 Certificate and Voucher Payment System. We want to thank you and your staff for the assistance provided our auditors during the course of the audit and commend the Housing Authority for its efforts to strengthen controls over the Section 8 payment system.

Thank you also for your comments to the draft report. Those comments were considered when drafting the final report and are attached in their entirety to this report.

Sincerely,

Janice LeRoy
District Inspector General
Capital District

Enclosure